Edelweiss Financial Services Limited

Q1 FY25 Earnings Conference Call

August 05, 2024

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Moderator: Ladies and gentlemen, good day, and welcome to the 1st Quarter FY '25 Earnings Conference Call of Edelweiss Financial Services Limited.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Priyadeep Chopra – President, Edelweiss Financial Services Limited. Thank you, and over to you, ma'am.

Priyadeep Chopra: Thank you very much, Darwin, and good afternoon, everyone, and a very warm welcome for our Earnings Call today afternoon.

I have with us on the call Mr. Rashesh Shah – Chairman, Edelweiss, and Ms. Ananya Suneja – the CFO of Edelweiss Financial Services Limited.

We hope you had had a chance to review the investor presentation that we filed with the exchanges last Friday. During the discussion, we will be making references to it. Please do take a moment to review the Safe Harbor statements in our presentation. We will be making some statements today that may be forward-looking in nature and, hence, may involve certain risks and uncertainties.

With that, I will hand over the call to Mr. Rashesh Shah to begin the proceedings. Thank you, and over to you, Rashesh.

Rashesh Shah: Hi Priya. Thank you, and good afternoon to all of you, and a warm welcome for our Earnings Call for the 1st Quarter.

I know today there is a lot happening in the markets. There is a lot happening all over the world and I am truly grateful that all of you have taken the time out and be on this call with us. So, thank you once again. These interactions that we have are a very strong source of feedback and input to us.

So, I do hope that even today we make it pretty interactive. Your questions have always been a lot more interesting than my commentary, but I will still go through my commentary for the next maybe 5-7 minutes and then open up for the questions.

So, I think all of us obviously have enjoyed since we spoke last a few months ago. The India story continues. We have had a new government. The Budget 2024 was very focused on stability, growth. All of us have obviously seen that, analyzed that.

Coming to Edelweiss:

The 1st Quarter consolidated PAT up about 17% at about 59 crore and what is the important parameter of PAT that we look at, which is ex-insurance PAT, which is about 107 crores.

So, I think we continue to plug away at our priorities. And just to recap, the key priorities we have had is:

1. Making sure that the growth of the underlying businesses is protected. As you would have seen, in all our businesses, there has been reasonable amount of growth. In the Credit Business, there has been more cautious growth because we are growing only as fast as the co-lending partners can grow. But outside of that, our alternative asset management business, the fee-paying AUM has tripled in the last four years. Our mutual fund AUM has grown 7 times. So, in all these businesses, we have been growing 2x or 3x the industry rate. Our ARC, which is very focused on recoveries, we have now since in the last 8 years from FY '16 to now recovered almost 52,000 crores and even now we are clipping along at an annual recovery of about 7,000 to 8,000 crores a year in our ARC as you would have seen in the last few years. Both our insurance businesses have grown. General insurance has grown at 3 to 4 times the industry rate. The life insurance business has continued to grow at about 15%-16% consistently over the last few years. So, I think the growth in the underlying businesses, which we think is the most important aspect of value creation, has been consistent in the last 3 or 4 years and this quarter we have maintained that.
2. Friends, the second priority has been reduction of debt in the net debt. At this quarter, the net debt now stands at 12,700 crores. As you know, the peak debt was closer to 50,000 crores and on a Y-o-Y basis, the net debt has come down by 17%. We are still very focused on bringing down debt as we have changed our business model from a very asset and balance sheet heavy to more balance sheet light, asset light, more focused on fee income, more focused on asset management and businesses which don't require us to have a lot of borrowings on our balance sheet. So, we have been reducing the net debt and from the peak debt of 2019, it's consistently come down. We have I think brought down the debt by almost 27,000 crores in the last 4 to 5 years.
3. The third important pillar of our strategy has been unbundling the underlying businesses. We have made each and every business an independent standalone with strong governance but having their independent balance sheet, having their independent management and the holding company which ran all the businesses earlier is now purely a shareholder overseeing capital allocation, management performance as well as risk and governance of these entities. But all these entities are now very robust. They are very insulated. There is no cross holdings and all. And they are all very, very focused on their own marketplace, their own customers and making sure that they continue to be growing in a very focused way. Unlike what we were earlier which was more like a conglomerate where we had multiple businesses and everything shared, common resources and common backend, we are now truly unbundled at an operating level, at a management level, at a Board level for all the

companies. And that has been one of the reasons for the kind of growth, the good growth we have seen in all this business.

4. And the fourth plank of our focus priority has been the value unlocking. We continue to work on that as we saw, we did the Nuvama demerger last year. It has been listed for almost a year now. And it also showed the power of unbundling and the power of unlocking for us and our shareholders. We have always maintained, and I will speak a little bit about that, about our future strategy that we don't want to remain a hold co, which has all the assets underneath that. We want to unlock the value and share that value with all the shareholders along the way. And we will speak a little bit about that but would love your views on that.

Before we go into the performance of individual businesses, there are slides on that. There are two important updates:

One is on the RBI order. The RBI passed an order in May on two of the underlying subsidiaries, Edelweiss Asset Reconstruction Company and ECL Finance.

In Edelweiss Asset Reconstruction Company, RBI has asked EARC not to acquire any assets, not to rearrange the structure of the current assets, but we can continue to focus on recoveries. We can continue to focus on all the other operations that we have. And in ECLF, they have been restricted currently from doing any structured sales of the wholesale book and that is also, as you know, a non-continuing business.

The wholesale business is a non-continuing business of ECL Finance, and we have been focused on recoveries and bringing down the book and one of the ways we were doing was doing sales. So, doing structured sales, which was more like where the pricing is more structured based on recovery, RBI has asked us to refine our processes. RBI has asked ECLF to make sure that they have more outside when they do structured sales and only when RBI is comfortable, they will be allowed to go ahead with that.

So, that is the status of the orders. A few of you have reached out to us and asked us what are the impact of that. The impact of that for ECLF is that they can't do sales, but they can continue to focus on their MSME business. The growth on that remains unaffected by that. They also need to improve their processes and put in place a lot of oversight and checks and balances on structured wholesale sales. Once that is done, we hope that RBI will be comfortable, and we will give a go ahead for them to restart if they need any structured sales of the wholesale book.

On EARC, on Edelweiss Asset Reconstruction Company, a lot of focus in the last few years has been on recovery. So, that continues to be the focus. They will focus on recovery because, as you know, there have not been too many good quality wholesales assets also easily available and even in the ARC, as we focus on not doing borrowing and we have been repaying the debt, ARC is now geared only at about 0.3 is to 1. We have been more focused on recoveries. We still have close to 30,000 crores of AUM in ARC. And I guess the next few years, the focus will continue to be on recoveries. And even in ARC, the company is working with RBI. They are rectifying whatever deficiencies have been pointed out with RBI. We respect RBI views and all and they are a strong regulator. They are very forward-looking regulator.

So, at EFSL, our holding company, we are keeping a close eye on this. We are encouraging the management and the Boards of both these companies to do everything that is required to make sure that they give the required comfort to the Reserve Bank of India and get this resolved.

As you know, there have been a lot of other companies, a lot of the private sector banks and other NBFCs which have also got order from RBI from time to time. So, we are also speaking with our advisors and consultants on the process for that to make sure that whatever gives comfort and satisfaction to RBI in terms of the processes and in terms of the framework that we need to develop and get there.

We have already made some amount of progress. A lot of things have got done till end of July. The boards of these companies are keeping a close eye. There is every month a checklist on things to do and the managements of both the companies are very committed to doing that. So, I hope in the next few months we do everything required and get the order lifted from RBI.

On the other important update, we have been looking at Edelweiss alternate asset management value unlock process, we had said we want to sell 10% to 20% stake in that business. That business has been growing well, has got a fair amount of growth in the fee paying AUM and is now, as you have seen, making a good growth in the quarterly profit as you would have seen in this quarter also.

They continue to grow in terms of AUM, fee paying AUM as well as the profit after tax. In the June quarter, they have also clipped along good growth along with that. In June 2024, they have clocked down 66 crore profit after tax as compared to 46 for the same quarter last year. So, good growth in alternative asset management.

Industry is also coming of age. Last year, we had filed an addendum along with our main result on the alternative asset management business. I do hope all of you would have had a chance to see that and if there are any questions on that, we will be happy to answer that.

We are looking at a minority stake sale either through a private process or even an IPO and very soon we hope that after evaluating all the feedback and the process we are getting from our bankers and consultants, we will be able to come back to you and highlight what is the best way to sell the stake, whether it's an IPO or it's a private process. We are currently consulting, and we hope that by 30th September, we finalize our thinking in the best path forward and come back to all our stakeholders, including all of you, and update you on that. But EAAA is now an important part of our unlock going forward.

Outside of that, as you would have seen, our balance sheet is strong. We have a lot of equity. We have reduced borrowing, but our equity has been pretty strong. All our businesses are very well capitalized. Capital adequacy is pretty high, in fact, a lot higher than required for NBFC, for housing finance, as well as for the ARC and the insurance companies have good solvency. Along with that, the customer franchise, especially on the retail side, continues to grow. Our customer reach has now reached 82 lakh customers. We have added 20 lakh customers in the last one year and the customer assets are now 2.2 lakh crore, which is up 13%.

I would not go through all the business updates because as you would have said, alternative asset management is now an industry that has come of age. Everybody understands the mutual fund part of asset management, but the alternative part of asset management globally has been the fastest growing segment within asset management, and we continue to grow that. We are amongst the top players in India and with a focus which is on non-equity alternatives, which we call private credit and real estate and infra, that has been growing fairly steadily.

Our focus is on strategies which are more yield oriented and there is a clear market for that. There are equity strategies and alternatives like private equity, which are more growth oriented. We are more on the yield-oriented strategies. So, even alternatives as a market has become fairly large with multiple segments and bucket in that, but our focus and specialization has been on yield strategies.

Other businesses, as I said, Mutual Fund continues to grow. Our folios in Mutual Fund have crossed about 17 lakh folios. We have a strong SIP book of 260 crores a year, which is up 66%. Our Asset Reconstruction Company has been growing pretty strong. We have recovered 1,300 crores in the 1st Quarter. NBFC steadily via co-lending we continue to focus on MSME. NPAs are improving as the wholesale book is getting unwound.

Housing finance, Nido, is also very similar. Co-lending is the main focus of growth, and we are investing a lot in automation, not on the customer facing part but more on the internal facing part, automation in the platform, in analytics, on collections and all of that.

And our general insurance business Zuno has been the second fastest growing company in the GI industry and the gross return premium for this quarter was 236 crores. So, we are almost at an annualized run rate of more than 1,000 crores now.

And in the life insurance business we are showing good growth. It has been a fabulous organization. We have been getting a lot of awards on that as a great place to work and others. So, it is a long-term business, and we have now been in this business for 13 years and we continue to steadily plug away at that. Our AUM has now crossed 8,000 crores in that business in the life insurance business and embedded value is close to 2,000 crores.

So, to sum it up, I think businesses continue to grow. Alternative asset management remains a key part of our unlock. I want to again, once again, before we end this commentary, emphasize that we as a holdco don't want to remain a holdco where all the businesses are trapped inside the business.

We want to look at unlocking value and sharing that with our shareholders one by one in a way that is win-win for everybody, which is good for the business, good for Edelweiss Financial Services Company as well as good for our shareholders. And the Nuvama example is one that is easily visible to us, but we continue to work on that.

The holding company, you can unlock value in multiple ways. You can sell stakes in the business and use that capital to either bring down debt or distribute it with the shareholders, buy back equity, or you can demerge and give the shares to your shareholders. You can do other things like strategic tie-ups in that business, make them grow, and after that, do either an IPO or demerge the business.

So, we are looking at all alternatives available. Each business will be a very customized approach, which is good for the business because the value in the business is ultimately the main thing that is there. So, as long as the value is increasing and growing steadily, I think unlocking follows that.

But we remain committed to focusing on unlocking value, and I hope that in the next three to four months, we are working on some options on unlocking value and will come to the shareholders and our stakeholders and highlight to them what are the next steps we are taking on the unlocking part of our strategy and share that and get any feedback. In the meantime, if there is any inputs available to us, if there is any other feedback that you would like to share as stakeholders, we are very happy to hear them and get your feedback.

So, along with that, I think I come to an end to this part. We want to continue to update you. So, even outside of this call, if any of you have any questions or any queries, please do contact us. But for this quarter, if you have got a chance to see the investor presentation, would love to handle your questions and queries. So, over to you. Thank you very much once again to all of you for attending this call.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Modani from Prabhudas Lilladher. Please go ahead.

Aditya Modani: So, I had a couple of questions. Firstly, our value unlock of Nuvama was a great success and created immense value for all of us. In the PPT as well as in the opening commentary, we did talk about our plan for the next unlock. Can you throw some light on the same and which businesses are in the pipeline as of now?

Rashesh Shah: So, as we have said, we are focusing on, it's also, and I think it's a good question, Aditya. It's always a function of what is the right stage for the business. So, because our idea in Edelweiss has been to nurture the businesses, grow them, bring them to a certain stage and when there is value and when they can grow and independently continue the journey ahead, we want to share the fruits of that, the reward of that build-up with the shareholders. And we did that in Nuvama, as you said.

I think the next business, which is now likely to be there, is our alternative asset management business that has been growing pretty well. We have announced that we will do a stake sale to establish a price and the value of that business and then look at options of unlocking value for our shareholders. As I said, our ultimate idea for all our businesses, all the seven remaining businesses, we had eight of them. After Nuvama, there are seven businesses remaining.

Our end game over the next few years in all the seven businesses, they should all be independent. Maybe they should, some of them will be listed, some of them will be listed through IPO. Some of them will be listed through demerger, but our end game is that we should grow, nurture, provide all the oversight and handholding and resources for each of this business to grow.

I think the next one on the anvil most obvious is the EAAA. If you look at it from the profit point of view and the ability of the business to be standalone point of view, I think Edelweiss Alternatives is there.

Other businesses are also fairly large. Our ARC is pretty large but given that growth in ARC is slower because it's a very cyclical business, there was between 2013 to '18, we accumulated a lot of bad assets because there was a build-up of bad assets in the banking industry. '18 to '24, we are still focused on recovering those, focusing on that.

We still have quite a bit of AUM left. I do think that the growth in that business will be when the next cycle of NPS build-up, which we are not currently seeing and hopefully we will not see the same build-up as happened in the past.

So, I think given the business growth stage, the clarity of the story of that business in terms of being an independent company, the robustness of the management team, all of that, we look at that and say, is this company now ready to be independent? And if it is ready to be independent, what is the best way of going about it? That is the process we follow.

Aditya Modani: And secondly, our alternative fee-paying AUM has tripled since FY '20. Our PAT has also grown around 75% CAGR. What is the road for us going ahead? And are we planning to tap any new segments or launch any new products? If you could throw some light on the same?

Rashesh Shah: So, in Alternatives, as you would have seen the addendum that we gave in the last quarter, a lot of our strategies, we have about eight strategies there, about five in private credit and three in real assets. We are looking at alternatives. So, we just launched a commercial property real estate fund yield from commercial property fund in the last two quarters.

We are also looking at more performing credit and slightly lower yield strategies in private credit. So, as you know, in private credit, there are a bunch of strategies which are between 10% to 14%, which are called regular income private credit strategies. Then there are strategies which are between 14% to 18%, which are called performing and high yield credit, and then there are 18% plus, which are called special situations and stress credit funds. As you know, we are in second and third. Now we are going in Category-I also.

The same thing in real assets. There is infra, like we have a lot of focus on roads. Then there is a transmission line. Then there is things like renewable. Then office property. So, basically, a lot of these are all yield-strategies. So, we will continue to focus on yield.

Yield is a very important criterion for us because a lot of our investors are coming into this private credit and real assets funds to earn a yield and the yield can be anywhere between 1% to 2% a month kind of a yield for most of our investors. This is basically net after cost and all, they want to make between 12% to 24% depending on the risk return illiquidity of that particular strategy.

Moderator: Thank you. The next question is from the line of Harshal Sanjay, an individual investor. Please go ahead.

Harshal Sanjay: The general insurance business has seen robust growth with a steady reduction of losses. However, in our life insurance business, the gross premium has grown by only 10% and losses have been expanded. So, my question is, are we witnessing any challenges in our life insurance business due to increased competition or by any other key factors? Are we on a track to achieve break even by Financial Year '27?

Rashesh Shah: On the life insurance business, we are on track to achieve the break even as we have promised. We are hyper focused on that because the idea on the life insurance business is to get to that stage of break even. I think we have grown slightly slower this quarter because we have been doing some automation work transitioning.

Also, there is a lot of demand for ULIP, which is not a high margin product. So, we are also very focused on the VNB margin and since we don't use Banca a lot, I think Banca and ULIP has had a great growth this quarter, but our idea is to grow higher than the industry every year and that is what we have been focusing.

So, I think this year also we will grow slightly faster than the industry is what our internal target is. We don't want to spend too much capital behind ULIP because ULIP has its own cycle, and the margins are very different. We are very focused on traditional products like participating and non-participating and those continue to be our bread and butter in our strategy.

Harshal Sanjay: Thank you for the perspective. So, my second question is around debt. We have seen a significant improvement in our net debt in the last five years, but over the past few quarters, we are seeing a jump in our corporate debt. In your earlier calls, you have mentioned your plan to reduce it using proceeds from stake sales. When will we start seeing the decline?

Rashesh Shah: So, as you know, there are two stake sales we have already announced, and we have committed to. One is, you know, we own the Nuvama 14%. We won't sell everything in one shot, but over the next 4 to 5 quarters, 14% of Nuvama, because when we distributed, we kept it for the specific reason of using that to repay debt so that the Nuvama holding is the one way of reducing debt. The second as we announce EAAA, up to 20% of EAAA we sell either through an IPO or through a private sale and also use that proceed to repay debt. We also have our investment and other assets which are close to 2,000 crore and even those we will take an opportunity to sell 500 to 1,000 of that.

So, I think between EAAA, Nuvama and here we are not even currently looking at other businesses to sell stake because those businesses are still maybe a year away from us to be ready from the mutual fund stake sale or the housing finance stake sale, we are about a year away. But in the next one year, EAAA, Nuvama and some organic reduction in investment and credit book should bring down the debt quite significantly.

That is our current plan. We announced it. We have shared it with all the stakeholders. We remain confident that it will get done and over a period of time, I think our idea is that hold co will sell stakes in all our businesses. As I said, the part of unlocking them will have a small stake sale either private market or IPO market and slowly, slowly get them listed and more independent is the part for every business forward. So, currently, I think this in the next one year, the Nuvama stake sale, the EAAA stake sale and some reduction in investment and credit book are the three ways we are confident that we will reduce our debt at the corporate.

Moderator: Thank you. The next question comes from the line of Aman from Dolat Capital. Please go ahead.

Aman: May I ask in with your commentary, can you again highlight what is the update on your stake sale plan in alternative business? We announced this in December last year and are you exploring IPO or through exchange? Can you give some insight on this?

Rashesh Shah: So, you know, as I said, all the businesses have been very integrated and especially Edelweiss Alternatives has got business across this eight alternative strategies we have. They have an entity in Singapore which is owned by the corporate. So, after we announced the stake sale, and we wanted to be very transparent.

So, the moment we started working and we appointed advisors and lawyers and consultants to make the business standalone and independent is where we announced it because there were some rumors already started at that time. So, that is why we announced it in December.

We took about four to five months to structure the entity and make it standalone and a very unified entity. We had to transfer some entities across from Edelweiss to that to make EAAA as a standalone EAAA entity. I am happy to report that now it's become a completely standalone, very modular entity, which is ready to either get an investor or do an IPO. So, we spent a few months on that. We have been engaged with our advisors on either getting a private equity or pre-IPO investment done and then look at an IPO.

So, we have been also evaluating the pros and cons of all the options and as I said by 30th September, we have given ourselves the time to be able to finalize and come back to our shareholders and say, this is what we are doing to unlock the value in EAAA.

So, I think as I said in the next couple of months, we will be able to announce in EAAA and as I have said in the next three to four months, we will be able to announce a much broader unlock plan for Edelweiss as a whole, which might be a three-year kind of a plan on what we are going to do with each of the business in what way. Because as I said, the prerequisite for any unlock has been is the business large enough and exciting enough to attract its own investors and standalone on its own.

The second prerequisite has been, has it got scale? Has it got the organizational breadth and depth for that?

And then the third is that if they both are achieved, what is the best process for unlocking value? Is it through a demerger? Is it through a spin-off? Is it through an IPO? And we evaluate all of that. And as I said, there is no, it's like all your kids are not the same. No one answer fits all of them. So, we have to do it, customize business by business. And that's why unlock is not an easy process.

It's easy to just remain a hold co. If you wanted to just remain a hold co, it's a very easy process. We just sell 5%-10% of every business and still remain integrated. But when we decide to unlock, even we want to sell 5%-10%, we make sure the business, the governance, the resources, the balance sheet, the management is all independent. We don't have people who then work across entities. We don't have back-end that is common and shared. We make it a standalone independent entity.

And I would say, Nuvama is a classic one. If you go and see what Nuvama is today is what whole of Edelweiss was in 2000, maybe 8, 9, 10, where we were mainly capital markets and wealth management outfit. But we did unbundle the whole business, unlock that, put the management team in place, put all the processes in place.

It did take us a couple of years because it was the first one and it was the most complex from a business breadth point of view. But that did show us that just unlocking a business by selling a stake is usually premature. Unlocking it by structuring the entity rightly, making it ready for a spin-off or a demerger is equally important.

So, we have been working on that. And as I said, 30th September, we will be announcing our unlock strategy for EAAA. And in the next three to four months, we will announce a three-year unlock strategy for Edelweiss as a whole, part of which will be the de-leveraging and paying off the debt part of it and part of it will be unlocking value for the shareholders part of it.

Aman: Secondly, recently your two underlying subsidiaries, ARC and ECLF received RBI order. Can you please explain how did it impacted and to what extent it impacted your businesses? What steps have we taken to address the issue and when do we foresee that the regulator will lift the restrictions?

Rashesh Shah: So, as I earlier said in my commentary, this RBI orders like this have been issued to quite a few other banks and other entities also and we have looked at it and usually it does take some time for you to change your processes and prove to RBI that you have made all the changes, all the strengthening that needs to be required. We expect this process to be a continuous process where you constantly interact with RBI as you go forward and continue to showcase. So, that is one.

Second is, it has impacted business. Both the credit businesses have become slightly slower. We are engaged with all the other stakeholders, the partner banks and all to showcase our processes. About half the management effort is now going into strengthening those processes, interfacing with RBI, making sure whatever changes RBI wants to make them on a proactive basis, on as fast as possible basis. So, about half the management's attention is not on the business but on making sure that everything that is required to be done for this goes into that. So, it does affect business.

I do think next couple of quarters the credit businesses will be slower than what we were earlier. But since both those businesses are relatively smaller and younger, I think it is something they can absorb. They can easily focus on making whatever investments are to be done in terms of the backend structure, automation required to satisfy RBI. So, it won't affect our other businesses. This is in the credit business.

In the ARC business, it will affect the acquisition of new assets, but as you would have seen in the last couple of years, our acquisition had come down because there are not so many assets available to buy. As you all know, NPA in banking industries, all time low, corporate assets which have gone NPA are almost over. We were buying some retail assets here and there, about 50 crores or 100 crores a quarter, that will be on hold. So, our retail asset acquisition will be on hold.

Our recovery is 80%-85% of the effort in ARC. That continues at full force and the ARC management is also focused on interfacing with RBI and working with them. But I don't see any impact on recoveries on this. I also don't see in NBFC a long-term impact on the MSME business of this. In fact, they are taking this pause to become stronger.

So, I think the idea in all this is whenever something like this happens, you use this to become more strong rather than just go backward. So, I think it is more like a small pause for MSME business to make themselves stronger and for ARC to focus more on recoveries.

Aman: Just a follow-up question. So, what timeline can we expect when all the restrictions will be lifted off?

Rashesh Shah: I wouldn't want to hazard a guess because this is truly up to the satisfaction of RBI. So, there are organizations or what our consultants have told us, advisors, lawyers who have worked on this with other entities. It can be anywhere between 4-5 months to up to 8-9 months. But it depends because it's very specific to entity to entity.

On the NBFC side, since it is only structured credit sales, wholesale book sale, we hope to get that done faster. On ARC also, since it is about the processes on how we acquire and how we structure the acquisition of assets, we hope that we can get it done faster because there is clearly specificity on that.

So, I think a lot of the things that RBI had said, we had asked the management and the boards of those companies to work on creating a checklist out of all the things that they said they will do. A lot of things are getting done and the Board is monitoring it on a monthly basis. So, hopefully, when we have the next call after the next quarter, we will be able to give you a much, much clearer update on the timeline. Currently, our idea is not to try and hazard a guess and try to second guess Reserve Bank's needs. We are understanding the needs, interfacing with them and constantly working to address them.

Moderator: Thank you. The next question comes from the line of Niranjan Kumar from Equirus. Please go ahead.

Niranjan Kumar: So, my first question is, what is your stance on the recent budget announcements on infra and real estate sector? How is our alternatives business going to benefit from this?

Rashesh Shah: Sorry, can you repeat that? I didn't hear the first part of the question.

Niranjan Kumar: So, basically, what is your stance on the recent budget announcements on Infra and real estate sector? How is our alternatives business going to benefit from this?

Rashesh Shah: So, I think it's very clear that there is, see, both real estate and Infra, a lot of yield strategies, they depend on what we call recycling of assets. So, you know, the way it works is a sponsor or a developer builds an asset by their office complex or an IT park or a road or a renewable power plant.

And then they need to recycle those assets to be able to invest in further greenfield assets. And eventually, that is where they sell to a fund, which then basically converts into a yielding strategy for the investors in the fund. And then eventually, after the fund, a few years, the fund converts into an InvIT or a REIT and then listed in the market.

So, I think on that basis, I think the recent budget focus on infrastructure and also I think the push on that because a lot of the private CapEx which we want to start are going to be start with infrastructure and investments in the energy sector, especially the green energy and all. So, we are focused on that.

So, I think the opportunity is a lot. I think we have a lot of assets that we look at to acquire. We only acquire operating yielding assets as of now. So, all operating yielding assets which have already been up, and running is what we focus on.

I think the recent change in taxation and all that will also help a lot more with yield and income because debt funds and all have lost that attractiveness. So, people are willing to take a little bit more illiquidity and get a higher yield and if there is a higher tax, then the need for higher yield goes up even further.

So, I think people are moving from being okay with a 6%, 7%, 8% yield to them on a regular basis to looking at saying can I get maybe 9%, 10% yield and that is what a lot of the infra-yield strategies and some of the private credit strategies that we have aim to deliver at the lower end for the customer. So, as I said, all our strategies aim to deliver a return or a yield to investors which is between 8%, 9% to 18%, 19% in the hands of the investors. So, those strategies will become more important.

Ultimately, alternatives, I must clarify, is not about higher risk, is about higher illiquidity. In fact, the risk of loss may be lower because there is a real underlying asset that the fund is holding, but it is illiquid asset. So, I think people are going to trade off liquidity for higher yield and that is what we have been seeing in the last few years and I think that will continue as we go forward and if there is a cut in interest rate by RBI where yields fall even further, then this going a little bit more illiquid to get a higher yield, that need will go up even further.

Niranjan Kumar: Sir, my second question is in the overall industry, in the equity fund category, there has been witnessing positive flows for the last three years. Our net inflows have also grown by around 5x year-on-year and AUM has jumped by 71% year-on-year. Like what is your view on this rally? Is it some kind of bubble, which is going to burst, or markets are going to stay buoyant? And what is the ideal AUM in terms of equity debt that we want to achieve in the long run?

Rashesh Shah: So, in our mutual fund, as you have very correctly pointed out, we are currently, let us say, close to slightly under 1,40,000 crores of AUM. Out of which broadly about 40 odd percent is from Bharat Bond and the balance is from what we call non-Bharat Bond, which is equity hybrid and debt strategies.

So, our ideal mix is that Bharat Bond becomes about 25% of our total AUM. Equity and what we call high yielding funds have become another 50% and 25 are the middle ones. Usually, all mutual funds have three categories, what is called low fees, medium fees and high fees.

The low fee one are things like liquid fund, ETFs, Bharat Bond. All of them are on the low fee category. You do that because they are like ETFs where they are more passive. Investment management cost is lower and those are the low fee ones.

The middle fee ones are things like your balance fund and your hybrid funds and arbitrage funds and all of them, where they are balancing between equity and income kind of strategies.

And your higher fee where there is more cost also in terms of investment management are your equity funds and long only funds and others where you have higher fees and higher cost.

So, usually, I think having a mix of 50% in the high category, 25% in medium category and 25% in low category is a good internal target to have. Currently, we are about close to 35% in the high category. We are close to about 40% in the low category and the balance is in the middle category. So, that's our approach.

We are growing each year. So, the mix is getting stronger every year as we go along. And as you would have seen even recently, we did an NFO which closed very well. We collected more than 1,800 crores in the Business Cycle Fund, equity fund, which is an NFO that we did a few weeks ago. So, I think that continues to grow pretty well.

In terms of market bubble and all, I would not hazard a guess, but I think our markets are not hugely overvalued from a historic perspective and the kind of growth we have as compared to other parts of the world, I think the growth is where the optimism comes in.

However, having been in the market for 34 years, I can always say there will be volatility. I always say, any equity investor should be ready for a 8%-10% correction at any point of time because that is the nature of the market.

That's not about markets being overvalued or undervalued or markets in India being better than markets abroad. I think 8%-10% correction is what is part and parcel of a healthy robust equity market. IF there are other structural problems like a bubble and all, then there is more than that, but I think India has been steady because earnings have also been growing.

And the third important is there is a lot of household savings that is now comfortable investing in equity markets through the mutual fund, the campaign that AMFI has had. Mutual Fund Sahi Hai has worked. People have enjoyed the rewards of that.

So, at a $4 trillion economy, our household savings are also growing. Part of that are getting allocated to the equity markets and that will continue. So, I think the flows will continue. The volatility will continue. I don't see any structural imbalance or any structural major problem with the Indian markets and the valuation of the Indian markets.

But as I said, markets will be volatile. I think earnings have been steady. They will continue to move up. We need to boost our demand. We need to boost our employment. So, the economy has to become stronger, but at a 6.5%-7% GDP growth rate, I think we are as well poised for continued growth as we have ever been and whether you look at the RBI balance sheet, the bank's balance sheet, the government balance sheet, all of them are very strong and that gives me optimism that at least structurally India is in a strong place.

Moderator: The next question is from the line of Sidharth Shah, an individual investor. Please go ahead.

Sidharth Shah: It's just related to the EAAA stake sale. So, does that eventual stake sale depend upon the RBI removing the restrictions because while it's targeted at ECLF and EARC, some of the press releases and news reports also mention connected AIFs. So, just wanted to understand how that, if any, in any way, it impacts the EAAA stake sale process?

Rashesh Shah: No, it doesn't impact EAAA stake sale process at all. As I said, all our businesses are very independent and I must say, I think what we read in the media is not always as clear and as easy to understand. So, the order of RBI is very important. The order of RBI clearly says that.

And I must say, I think, basically, when you sell a stressed asset portfolio, which our NBFC did, usually there is a pricing difference and the pricing difference is, let us say, a stressed asset I think is worth Rs. 80 and you think it is worth Rs. 40. And unlike a normal asset, the value gap in stressed asset is pretty high because nobody knows whether it will take 3 years to recover, 2 years to recover or 4 years to recover because of the code process and NCLT.

So, there is a lot of time uncertainty in a resolution of a stressed asset. As a result of that, it is very hard to put a price. It was actually because of that only, RBI allowed banks to sell stressed asset to ARC on an 85-15 basis that you pay only 15% of the money from an ARC and 85 is actually continuous to be the bank because there is a pricing mismatch.

Now when we sold this to AIFs who bought this and we had a few global funds who bought this stressed asset from us, the standard practice is that if you say the value is 40, and you are comfortable with 40, and I think the value is 80, we sell the asset to the AIF and the first 40 is senior and the second 40 is junior. So, that is how the structure has happened.

Now, one of the objections to this is this is not real price discovery, but unfortunately, in stress credit for the last 8-10 years the senior, junior or what are called AB structures have been going on, so RBI was not comfortable and RBI has also asked us to put some processes in place so that how the AB is determined, how the cash flows of the senior, junior are determined. They are all very, very transparent, very easy to understand and all of that. So, that is what is being done.

But the RBI order is for, they both are, all are independent entities. So, EAAA continues to go out on its business. They close the fund also and there has been no order on any AIF being managed by EAAA from RBI.

Moderator: Thank you. Ladies and gentlemen, due to time constraints we will take one last question, which will be from the line of Niharika from Anand Rathi. Please go ahead.

Niharika: I have two questions. The first one is that over the last few years, the share of domestic investors in alternate businesses has increased. Like I think earlier it was at one-third and now it's almost 45%. So, what are the trends that we are seeing in terms of the fund raise and like are domestic investors showing interest in this space?

Rashesh Shah: Yes, it's an interesting question and I am happy you asked that. I think what we have seen is Indian investors are getting comfortable with alternatives and we are seeing a lot of interest from Indian investors into AIFs and others. As you and your organization would have also seen, AIFs are growing in preference. And obviously, there is illiquidity, but there is higher return for investors as part of that.

What is also happening globally as interest rates in the U.S. have been going up, a lot of the global investors for high yield strategies are focusing on their own local market. The yields in U.S. market in alternatives have also been very robust in the last couple of years, especially in private credit and real estate and other real asset strategies, not so much in the PE strategies.

But because we don't do private equity, we do mainly private credit and real asset strategies because the yields have gone up, earlier the differential between Indian yields and global yields was fairly attractive. Last couple of years, they have compressed.

So, a lot of our existing LPs have invested into new fund, but we have not a lot more aggressive fundraising we have done there. As interest rates fall there, I think the overseas market will pick up again. And as I said, on the other side, there is a lot of demand on the Indian side, especially for our infra and real assets. A lot of our Indian investors have come into the infra and real asset strategies because a lot of Indians are looking for yield and their comfort with having underlying income producing assets like a road, like an office complex, an IT park has gone up quite significantly and there is more capital available.

The other interesting thing is internationally all money till now has been mainly institutional money. Now we are starting to see a lot of HNI and family offices from abroad wanting to invest in Indian alternatives. So, there is a change happening from institution to individual abroad. In India, it has more been family offices and individuals, but now we are starting to see institutional interest from insurance companies and pension funds also in alternatives coming up.

So, I think the next 3-4 years are going to be very exciting. The dynamic is going to change and from international institutional market, it will also become international individual market and in India, from Indian individual market, it will also become Indian institutional market and that is going to be again going to change the mix of the LPs and we have a fairly wide berth of LPs. We have close to 3,000 LPs totally between India and abroad.

So, we have really focused on having a very diversified LP base. We don't have 3 or 5 or 8 or 10 investors who are 80%-90% of the fund. We truly have a very, very broad base because our idea is this is a long-term business. It is for 20 years and if you go and study Blackstone and KKRs and others abroad, you realize that it takes 20 years to build an LP relationship and base and 3-4 funds where they reinvest and reinvest and that is where the business really takes off.

This business is about 15 years old for us. We started the business in 2010. We have been 15 years in this market, and it is now that we feel the business is at a stage of maturity with lot of growth still ahead of us where it is the correct time to think about unlocking and spinning off this business as an independent standalone business.

Niharika: Just a small question quickly. So, recently a lot of NFOs were in sectoral and thematic category and we have also had an NFO Business Cycle Fund. Do you think it is an industry trend which is started on the back of market tailwinds, or this category is underpenetrated thereby attracting fund houses?

Rashesh Shah: I think it is a combination of both. I think more and more investors want thematic funds and sectoral funds because ultimately there is only one large cap fund, one mid cap fund that you can invest in, and people have already invested in those funds. So, I think people are also going towards mutual fund as a portfolio and increasingly I think people are making the portfolios more and more diverse and more and more complex in terms of what teams they choose and all.

So, I think it's an interesting trend, but I do think because as you would have also seen, there are teams that work very well. There are vectors that work very well. And we are seeing more and more intelligent investors, mutual fund investors who don't want to spend the time picking individual stocks, but they do want to pick individual sectors. They want to pick teams.

So, I think earlier either an investor would do it on his or her own and buy stock on their own in the market or just invest in a plain vanilla mutual fund. Now a lot of investors are saying, you know what, I don't have time to study individual stocks, but I think defense will do well or I think IT will do well and hence, I will invest in a sector fund and when I think that sector is not doing well, I will take money out of that sector and put it in some other sector.

So, I think sector funds and thematic funds are where there is a lot of, I think investors are also fairly focused and they are doing work at that stage to be able to make those calls. So, I think it's an interesting trend and it has added a new dimension which is between market and stocks, there are teams and sectors also coming up in the middle.

Moderator: Thank you. I would now like to hand the conference back to Ms. Priyadeep Chopra for closing comments. Over to you, ma'am.

Priyadeep Chopra: Thank you, Darwin. Thank you, Rashesh. And most of all, thank you everyone for your time and your questions today. It was a very insightful conversation. Please do write in to us at Edelweiss Investor Relations for any other questions or additional information that you may need. Once again, thank you for your time. Over to you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Financial Services, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.